BARRY GOLDWATER INSTITUTE FOR PUBLIC POLICY RESEARCH AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2022

BARRY GOLDWATER INSTITUTE FOR PUBLIC POLICY RESEARCH AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

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CONTENTS

INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the consolidated financial statements of ***Barry Goldwater Institute for Public Policy Research and Subsidiary***, (the "Institute"), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Institute as of December 31, 2022, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Institute and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Institute's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited ***Barry Goldwater Institute for Public Policy Research and Subsidiary's 2021*** consolidated financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 25, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

May 25, 2023

BARRY GOLDWATER INSTITUTE FOR PUBLIC POLICY RESEARCH AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2022
(with summarized comparative totals as of December 31, 2021)

A S S E T S

	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	$ 3,480,581	$ 3,944,479
Pledges receivable, net	118,167	177,295
Prepaid expenses and other current assets	40,732	65,388
Property held for sale	-	169,158
TOTAL CURRENT ASSETS	3,639,480	4,356,320
PLEDGES RECEIVABLE, less current portion and discount to present value	-	90,703
INVESTMENTS	8,732,755	6,482,324
PROPERTY AND EQUIPMENT, net	1,400,563	1,346,040
TOTAL ASSETS	$ 13,772,798	$ 12,275,387

L I A B I L I T I E S   A N D   N E T   A S S E T S

	2022	2021
CURRENT LIABILITIES		
Accounts payable	$ 257,632	$ 256,556
Accrued and other current liabilities	351,254	275,806
Current portion of split interest agreement	7,404	7,404
Current portion of note payable, net of deferred financing costs	-	22,211
TOTAL CURRENT LIABILITIES	616,290	561,977
SPLIT INTEREST AGREEMENT, less current portion	22,427	28,463
NOTE PAYABLE, less current portion and unamortized deferred financing costs	-	527,810
TOTAL LIABILITIES	638,717	1,118,250
NET ASSETS		
Without donor restrictions	11,202,241	8,719,874
With donor restrictions	1,931,840	2,437,263
TOTAL NET ASSETS	13,134,081	11,157,137
TOTAL LIABILITIES AND NET ASSETS	$ 13,772,798	$ 12,275,387

See Notes to Consolidated Financial Statements

BARRY GOLDWATER INSTITUTE FOR PUBLIC POLICY RESEARCH AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2022
(with summarized comparative totals for the year ended December 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	Totals 2022	Totals 2021
SUPPORT, REVENUES AND GAINS				
Contributions	3,658,682	57,352	3,716,034	$ 3,560,946
Foundation contributions and grants	2,182,346	515,654	2,698,000	1,915,346
In-kind contributions	1,341,279	-	1,341,279	959,314
Interest and dividends, net	92,592	19,310	111,902	57,767
Realized and unrealized gains (losses)	(139,842)	(232,915)	(372,757)	317,027
Gain of sale of property	1,006,148	-	1,006,148	-
Other income	15,908	-	15,908	282,161
Total support and revenues before special events and net assets released from restrictions	8,157,113	359,401	8,516,514	7,092,561
Special events:				
Special events revenues	348,932	-	348,932	438,424
Less costs of direct donor benefits	(40,411)	-	(40,411)	(81,236)
Gross profit on special events	308,521	-	308,521	357,188
Net assets released from restrictions	864,824	(864,824)	-	-
TOTAL SUPPORT, REVENUES AND GAINS	9,330,458	(505,423)	8,825,035	7,449,749
EXPENSES:				
Programs:				
Litigation	2,837,698	-	2,837,698	2,619,546
Legislation	2,099,657	-	2,099,657	1,248,969
Communcations	855,414	-	855,414	772,039
Total programs	5,792,769	-	5,792,769	4,640,554
Fundraising	681,860	-	681,860	524,376
Management and general	373,462	-	373,462	441,943
TOTAL EXPENSES	6,848,091	-	6,848,091	5,606,873
CHANGE IN NET ASSETS	2,482,367	(505,423)	1,976,944	1,842,876
NET ASSETS, BEGINNING OF YEAR	8,719,874	2,437,263	11,157,137	9,314,261
NET ASSETS, END OF YEAR	$ 11,202,241	$ 1,931,840	$ 13,134,081	$ 11,157,137

See Notes to Consolidated Financial Statements

BARRY GOLDWATER INSTITUTE FOR
PUBLIC POLICY RESEARCH AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022
(with summarized comparative totals for the year ended December 31, 2021)

	Programs				Support Services		Totals	
	Litigation	Legislation	Communications	Total Programs	Fundraising	Management and General	2022	2021
Wages and salaries	$ 1,027,195	$ 1,148,982	$ 290,834	$ 2,467,011	$ 277,794	$ 151,740	$ 2,896,545	$ 2,461,318
In-kind legal and research expense	1,340,499	780	-	1,341,279	-	-	1,341,279	943,924
Contract labor	60,405	115,515	214,547	390,467	49,468	46,375	486,310	451,973
Employee benefits	81,008	84,955	42,140	208,103	25,074	19,804	252,981	203,502
Direct mail and postage	-	-	112,764	112,764	8,488	-	121,252	133,190
Payroll taxes	71,132	80,832	20,208	172,172	19,198	10,710	202,080	172,224
Depreciation and amortization	34,918	36,141	18,800	89,859	11,739	5,346	106,944	95,847
Travel	19,519	45,439	13,427	78,385	25,279	340	104,004	72,082
Gala fundraising event	-	-	-	-	174,518	-	174,518	102,729
Building expense	32,936	34,089	17,733	84,758	11,072	5,042	100,872	94,840
Dues and subscriptions	20,520	21,509	20,779	62,808	16,225	15,300	94,333	71,594
Technology	5,532	5,726	2,979	14,237	1,860	847	16,944	20,883
Litigation fees and attorney's fees	116,725	-	-	116,725	-	-	116,725	526,113
Event	420	19,985	1,284	21,689	21,125	-	42,814	3,943
Direct donor benefits	-	-	-	-	40,411	-	40,411	81,236
Advertising and public relations	88	280,326	23,244	303,658	-	-	303,658	32,407
Printing and research publications	625	33,100	23,591	57,316	863	-	58,179	1,428
Insurance	-	-	-	-	-	38,712	38,712	38,419
Audit and financial services	-	-	-	-	-	44,214	44,214	40,403
Book and marketing expense	-	-	-	-	10,043	-	10,043	3,392
Telephone	9,046	9,362	4,870	23,278	3,041	1,385	27,704	28,518
Interest expense	-	-	-	-	-	16,687	16,687	22,217
Bank and credit card fees	-	-	-	-	15,393	3,216	18,609	24,661
Business meals	4,243	8,442	842	13,527	2,762	195	16,484	10,561
Supplies	5,888	6,094	3,170	15,152	1,979	901	18,032	13,813
Seminars and meetings	4,394	19,330	-	23,724	837	-	24,561	7,898
Website development expense	-	-	44,202	44,202	-	-	44,202	2,195
Payroll and plan maintenance fees	-	-	-	-	-	8,727	8,727	9,242
Licenses/fees	18	384	-	402	5,102	78	5,582	5,278
Legal	2,587	148,666	-	151,253	-	3,843	155,096	12,279
TOTAL EXPENSES	$ 2,837,698	$ 2,099,657	$ 855,414	$ 5,792,769	$ 722,271	$ 373,462	$ 6,888,502	$ 5,688,109

See Notes to Consolidated Financial Statements

BARRY GOLDWATER INSTITUTE FOR PUBLIC POLICY RESEARCH AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2022
(with summarized comparative totals for the year ended December 31, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,976,944	$ 1,842,876
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	106,944	95,847
Donated securities	-	(388,452)
Change in discount on long-term pledges	4,535	(3,399)
Amortization of deferred financing costs	6,263	911
Realized and unrealized losses (gains) on investments	372,757	(317,027)
Gain on sale of property	(1,006,148)	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Pledges receivable	145,296	713,302
Prepaid expenses and other current assets	24,656	(23,411)
Increase (decrease) in:		
Accounts payable	1,076	214,384
Accrued and other current liabilities	75,448	(153,753)
Split interest agreement, net	(6,036)	(3,859)
Net cash provided by operating activities	1,701,735	1,977,419
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(161,467)	(13,500)
Proceeds from sale of property	1,175,306	-
Proceeds from sale of investments	1,491,633	491,682
Purchases of investments	(4,114,821)	(519,766)
Net cash used in investing activities	(1,609,349)	(41,584)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(556,284)	(21,397)
Net cash used in financing activities	(556,284)	(21,397)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(463,898)	1,914,438
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,944,479	2,030,041
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,480,581	$ 3,944,479
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid for interest	$ 11,368	$ 16,898

(1) Institute operations and summary of significant accounting policies

Barry Goldwater Institute for Public Policy Research ("the Institute") was established in 1988 as an independent, non-partisan research and educational organization dedicated to the study of public policy. Through research, investigations, strategic litigation, testimony, advocacy, and education, the Institute's mission is to advance public policy and a rule of law under which individuals can shape their own destinies as free men and women. The Institute helps citizens understand and adopt policies that sustain and restore economic liberty, educational freedom, personal responsibility, and constitutional limits on government power consistent with the founding principles of our constitutional republic. When government oversteps its proper bounds the Institute uses public interest litigation to enforce individual rights and constraints on government power guaranteed by our State and Federal constitutions. The Institute neither seeks nor accepts government funding and relies wholly on contributions from the private sector to fund its activities.

In February 2001 the Institute's Board of Directors formed ***Goldwater Institute Holding Company, LLC*** ("Holding Company"), with the Institute as the sole member. The Holding Company was formed to hold and manage the Institute's real property. The Institute transferred its real property to the Holding Company in 2002.

The significant accounting policies followed by the Institute and its subsidiary, the Holding Company, collectively referred to in these consolidated financial statements as the "Institute," are summarized below:

Basis of presentation – The accompanying consolidated financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, Not-for-Profit Entities – Presentation of Financial Statements. Under ASC 958-205, the Institute is required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The Institute maintains its accounts on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

<u>Net assets without donor restrictions</u>
Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Institute. These net assets may be used at the discretion of the Institute's management and the board of directors.

<u>Net assets with donor restrictions</u>
Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Institute or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities and change in net assets.

(1) Institute operations and summary of significant accounting policies (continued)

Prior year summarized information – The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Institute's audited consolidated financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Institute and its subsidiary, ***Goldwater Institute Holding Company, LLC***. All significant intercompany transactions and accounts have been eliminated in consolidation.

Management's use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions and grants –The Institute evaluates grants and contributions for evidence of the transfer of commensurate value from the Institute to the grantor or resource provider. The transfer of commensurate value from the Institute to the grantor or resource provider may include instances when a) the goods or services provided by the Institute directly benefit the grantor or resource provider or are for the sole use of the grantor or resource provider, or b) the grantor or resource provider obtains proprietary rights or other privileges from the goods or services provided by the Institute. When such factors exist, the Institute accounts for the grants or contributions as exchange transactions under ASC 606, *Revenue from Contracts with Customers*, or other appropriate guidance. In the absence of these factors, the Institute accounts for the award under the contribution accounting model.

In the absence of the transfer of commensurate value from the Institute to the resource provider, the Institute evaluates the contribution for criteria indicating the existence of measurable barriers to entitlement for the Institute or the right of return to the resource provider. A barrier to entitlement is subject to judgment and generally represents an unambiguous threshold for entitlement that provides clarity to both the Institute and resource provider whether the threshold has been met and when. These factors may include measurable performance thresholds or limited discretion on the part of the Institute to use the funds. Should the existence of a measurable barrier to entitlement exist and be accompanied by a right of return of the funds to the resource provider or a release of the resource provider from the obligation, the contribution is treated as a conditional contribution. If both the barrier to entitlement and right of return do not exist, the contribution is unconditional.

The Institute recognizes amounts received from unconditional contributions at the time the Institute receives notification of the award. Contributions that include conditions imposed by the grantor or resource provider are recognized when those conditions are met by the Institute.

(1) Institute operations and summary of significant accounting policies (continued)

The Institute accounts for unconditional contributions in accordance with FASB ASC 958-605*, Not-for-Profit Entities – Revenue Recognition*. Contributions received are recorded as contributions without donor restrictions or contributions with donor restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Restricted contributions, where restrictions are fulfilled in the same period in which the contribution is received, are shown as additions to net assets without donor restrictions.

Special events revenue – The Institute conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Institute. The direct costs of the special events which ultimately benefit the donor rather than the Institute are recorded as costs of direct donor benefits. All proceeds received in excess of the direct costs are recorded as gross profit on special events in the accompanying consolidated statement of activities and change in net assets. As of December 31, 2022 and 2021, the Institute had not received proceeds for events scheduled to occur in the following fiscal year.

Donated materials and services – In September 2020, the FASB issued Accounting Standards Update ("ASU") No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The Institute implemented ASU 2020-07 during the year ended December 31, 2022 and presents contributed nonfinancial assets separately on the consolidated statement of activities and changes in net assets as in-kind contributions.

The Institute receives various in-kind contributions in the form of donated services, supplies, and other materials. Donated materials are recorded at their estimated fair value as of the date of donation. In-kind contributions are valued using estimated prices of identical or similar services and products in the local retail markets (Level 2 inputs). Donated materials are reflected as contributions in the consolidated statement of activities and changes in net assets at their estimated fair values at the date of receipt. Donated services are recognized as contributions in accordance with FASB ASC 958-605 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. When these conditions are met, the fair value of the donated services is reflected as contributions in the consolidated statement of activities and change in net assets. No amounts have been reflected in the accompanying consolidated financial statements for certain donated volunteer services because they did not qualify for recording under the guidelines of FASB ASC 958-605.

The Institute received donated services from various attorneys. The Institute received the following donated materials and services during the years ended December 31:

	2022	2021
Donated legal and research services for programs	$ 1,341,279	$ 943,924
Other donated materials and services	-	15,390
Total donated materials and services	$ 1,341,279	$ 959,314

(1) Institute operations and summary of significant accounting policies (continued)

Cash and cash equivalents – Cash consists of cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Deposits at each financial institution are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC").

Promises to give – Unconditional promises to give (pledges) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the receivable is expected to be collected, the creditworthiness of the other parties, the Institute's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable's collectability. Amortization of the discounts is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Pledges receivable are stated at the amount management expects to collect. Management provides for uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable. At December 31, 2022 and 2021, pledges receivable are considered by management to be fully collectible, and, accordingly an allowance for uncollectible pledges is not considered necessary.

Investments – The Institute carries investments in marketable equity securities with readily determinable fair values at their fair values based on quoted prices in active markets (all Level 1 measurements) in the consolidated statement of financial position in accordance with FASB ASC 958-321, *Not-for-Profit Entities – Investments – Equity Securities.*

As of December 31, 2022 and 2021, the Institute holds investments in equity instruments without readily determinable fair values consisting of investments in non-traded real estate investment trusts ("REITs") which are further described in Note 3. Additionally, the Institute invests in certain investments that qualify for the use of Net Asset Value ("NAV") as a practical expedient for fair value as permitted under FASB ASC 820, *Fair Value Measurement*.

The Institute adjusts the carrying value of non-marketable equity securities that do not qualify for the NAV practical expedient up or down for observable price changes in orderly transactions for identical or similar investments of the same issuer and for impairment, if any (referred to as the measurement alternative). All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in the consolidated statement of activities and change in net assets. As of December 31, 2022 and 2021, the carrying value of the Institute's investments in non-marketable equity securities valued using the measurement alternative was approximately $80,000 and $90,000, respectively.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect account balances and the amounts reported in the accompanying consolidated financial statements.

(1) Institute operations and summary of significant accounting policies (continued)

The Institute classifies its investment holdings as long-term assets in the consolidated statement of financial position based on management's intent and the expectation that the investments will provide long-term benefit to the Institute.

Fair value measurements – FASB ASC 820, *Fair Value Measurement*, establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. FASB ASC 820 also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. FASB ASC 820 also requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

Investments valued using NAV as a practical expedient are excluded from the fair value measurements leveling table in accordance with FASB ASC 820.

Property and equipment and related depreciation and amortization – Purchased property and equipment is valued at cost, and donated property and equipment is recorded at fair value at the date of gift to the Institute. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of $1,000 are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation or amortization account are relieved, and any gain or loss is included in operations. Depreciation and amortization of property and equipment is computed on a straight-line basis over the following estimated useful lives:

Buildings and improvements	39 years
Furniture and equipment	3 - 15 years

Impairment of long-lived assets – The Institute accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant, and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded for the years ended December 31, 2022 and 2021.

Property held for sale – In December 2020, the Institute entered in a purchase and sale agreement for the land available for sale with a new buyer for $1,254,000. The Institute closed the sale on January 12, 2022 for the $1,254,000, less total costs to sell of approximately $79,000. As a result of the sale, the Institute recorded a gain on the sale of property of approximately $1,006,000 which is recorded in the accompanying consolidated statement of activities and change in net assets for the year ended December 31, 2022.

(1) Institute operations and summary of significant accounting policies (continued)

Functional expenses – Expenses are charged to program services, management and general, and fundraising categories based on direct expenditures incurred. The expenses that are allocated include building expense, telephone, office supplies and expenses, equipment lease and technology, which are allocated on a full time equivalent basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

Advertising expense – Advertising costs are charged to operations when incurred. Advertising expense charged to operations was $303,658 and $32,407 for 2022 and 2021, respectively.

Deferred financing costs – Deferred financing costs represent commitment fees, legal fees, and other third-party costs associated with obtaining financing. Costs are being amortized using the straight-line method, which approximates the effective interest method over the respective life of the related debt obligation. Deferred financing costs are presented on the accompanying consolidated statement of financial position as a direct reduction to the note payable.

Income tax status – The Institute qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, there is no provision for income taxes. Income determined to be unrelated business taxable income would be taxable. ***Goldwater Institute Holding Company, LLC*** is a disregarded entity for income tax purposes.

The Institute evaluates their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. At December 31, 2022 and 2021, management believes the Institute does not have any uncertain tax positions. The Institute's federal Returns of Organization Exempt from Income Tax (Form 990) for 2019, 2020 and 2021 are subject to examination by the IRS, generally for the three years after they were filed. The return for the year ended December 31, 2022 has not yet been filed as of the date of this report.

Recent accounting pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* which requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the balance sheet upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. In June 2020, the FASB issued FASB ASU No. 2020-05*, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which allows certain entities to elect to defer the effective date of the provisions of FASB ASU No. 2016-02. These entities may elect to adopt the lease guidance for fiscal years beginning after December 15, 2021. As an accounting policy, a lessee may elect not to apply the recognition requirements in ASC Topic 842 to short-term leases. Instead, a lessee may recognize the lease payments in profit or loss on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred. The accounting policy election for short-term leases shall be made by class of underlying asset to which the right of use relates. The Institute elected short-term lease recognition for all classes of underlying assets, as the Institute is not a party to any long-term lease arrangements. Accordingly, the adoption of Topic 842 did not have a material effect on the Institute's consolidated financial statements.

Subsequent events - The Institute has evaluated subsequent events through May 25, 2023, which is the date the consolidated financial statements were available to be issued.

(2) Pledges receivable

Pledges receivable consist of the following at December 31:

	2022	2021
Unconditional promises to give:		
Receivable in less than one year	$ 122,929	$ 177,295
Receivable in two to five years	-	100,000
Total pledges receivable	122,929	277,295
Discount to net present value	(4,762)	(9,297)
Net pledges receivable	118,167	267,998
Current portion	(118,167)	(177,295)
Noncurrent portion	$ -	$ 90,703

The estimated future cash flows for pledges receivable are discounted over the collection period using a discount rate of 5%.

As of December 31, 2022 and 2021, there were no pledges due from board members. Board members represented approximately 4% and 6% of contributions for the years ended December 31, 2022 and 2021, respectively.

(3) Investments

Investments consist of the following at December 31:

	2022	2021
Common stocks	$ 395,727	$ 830,231
Real estate investment trusts (not publicly traded)	80,060	89,744
U.S. equity exchange traded funds	634,623	1,536,349
Business development company funds	41,827	41,293
U.S. fixed income funds	30,475	41,891
Money market funds	128,652	3,903,507
Government securities	7,389,069	-
Other exchange traded funds	32,322	39,309
Total investments	$ 8,732,755	$ 6,482,324

The Institute's investments in real estate investment trusts that are not publicly-traded are subject to redemption restrictions. In order for the Institute to redeem its investments in these real estate investment trusts at a value at least equal to cost, the Institute would be required to hold the investment for a minimum of four years unless the trusts are subject to a public offering or a price per share unrelated to the original offering price is established. The primary investment objectives of the trusts are to preserve and return capital contributions of investors and to provide investors with attractive and stable cash distributions.

The Institute's holdings in government securities are primarily invested in United States treasury notes due in 2023 and 2024.

(4) Property and equipment

Property and equipment consist of the following at December 31:

	2022	2021
Cost and donated value:		
Land	$ 189,322	$ 189,322
Buildings and improvements	2,482,001	2,401,547
Furniture and equipment	1,445,853	1,364,840
Total cost and donated value	4,117,176	3,955,709
Accumulated depreciation and amortization	(2,716,613)	(2,609,669)
Property and equipment, net	$ 1,400,563	$ 1,346,040

Depreciation and amortization expense charged to operations was $ 106,944 and $95,847 , respectively, for the years ended December 31, 2022 and 2021.

(5) Split interest agreement

In February 2017, the Institute entered into a charitable gift annuity agreement with an annuitant. The annuitant contributed $100,000 which was invested in marketable securities that are included in investments on the accompanying consolidated statement of financial position and are carried at fair value. Contribution revenues are recognized at the date the annuity is established after recording liabilities for the present value of the estimated future payments to be made to the donor and/or other beneficiaries. Present values are calculated using discount rates that reflect the fair value as determined at the time the annuity is established. On an annual basis, the Institute revalues the liability based on applicable mortality tables and a discount rate of 2.0%. The present value of the estimated annuity payments associated with the charitable gift annuity was $ 29,831 and $ 35,867 at December 31, 2022 and 2021, respectively.

(6) Note payable

Note payable consisted of a $600,000 note, with Holding Company as the borrower and with the Institute as the guarantor. The note payable bore interest at 3.70% and is subject to an interest rate reset scheduled for November 2022 when the interest rate was to be reset to a 3-year U.S. treasury rate plus a margin of 2.00%. The note was payable in monthly installments of $3,558, which includes principal and interest. The note payable was to mature in November 2028 at which time a final payment of all unpaid principal and interest was due. The note payable was subject to a prepayment penalty if more than $100,000 is repaid in either of the first three years of the note payable, as further defined in the promissory note. The note payable was subject to certain nonfinancial covenants and is collateralized by real property of the Institute. The lender required a minimum balance of cash on deposit of $400,000. The note payable was fully repaid and terminated in March 2022 with an associated prepayment penalty of approximately $4,000.

(7) Net assets with donor restrictions

Net assets with donor restriction consist of:	2022	2021
Education	$ 93,005	$ 275,000
Free speech	-	5,896
Founders video	199,302	-
AZ School District	-	50,000
Endowments held in perpetuity	915,185	915,185
Reagan fellows	71,807	110,168
Constitutional litigation center	423,387	615,768
Pledges restricted by time only	18,762	49,152
Healthcare	30,806	-
Unions	20,736	101,136
CRT & Academic Transparency	101,002	254,318
Other	57,848	60,640
Total net assets with donor restriction	$ 1,931,840	$ 2,437,263

Net assets released from restriction consist of the following for the year ended December 31, 2022:

Free speech	$ 5,896
AZ school district	50,000
Education	275,000
Pledges restricted by time only	42,357
Unions	80,400
CRT & academic transparency	252,857
Constitutional litigation center	117,000
RTT	36,291
Other	5,023
Total net assets released from restriction	$ 864,824

(8) Fair value measurements

The following table summarizes the valuation of the Institute's assets and liabilities subject to fair value measurement other than at initial recognition by the FASB ASC 820 categories as of December 31, 2022:

	Level 1	Level 2	Level 3	Total
Common stocks	$ 395,727	$ -	$ -	$ 395,727
U.S. equity exchange traded funds	634,623	-	-	634,623
U.S. fixed income funds	30,475	-	-	30,475
Money market funds	128,652	-	-	128,652
Government securities	7,389,069	-	-	7,389,069
Other exchange traded funds	32,322	-	-	32,322
	$ 8,610,868	$ -	$ -	$ 8,610,868

(8) Fair value measurements (continued)

The following table summarizes the valuation of the Institute's assets and liabilities subject to fair value measurement other than at initial recognition by the above categories as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Common stocks	$ 830,231	$ -	$ -	$ 830,231
U.S. equity exchange traded funds	1,536,349	-	-	1,536,349
U.S. fixed income funds	41,891	-	-	41,891
Money market funds	3,903,507	-	-	3,903,507
Other exchange traded funds	39,309	-	-	39,309
	$ 6,351,287	$ -	$ -	$ 6,351,287

The Level 1 assets above were valued utilizing quoted market prices. The Institute currently has no other assets and liabilities subject to fair value measurement other than at initial recognition.

As disclosed in Note 1, the Institute measures its investments in non-marketable REITs at carrying value, less impairment, and adjusted for observable price changes in orderly transactions. During the year ended December 31, 2022, the Institute recognized unrealized losses of $9,684 in the carrying value of its non-marketable REIT investments resulting from a decrease in the published per share value of the REITs below the Institute's carrying value. The unrealized loss is recognized as a nonrecurring level three fair value measurement. During the year ended December 31, 2021, the Institute recognized unrealized losses of $1,612 in the carrying value of its non-marketable REIT investments resulting from a decrease in the published per share value of the REITs below the Institute's carrying value. The unrealized loss has been recorded by the Institute in realized and unrealized gains (losses) in the accompanying consolidated statement of activities and changes in net assets.

In accordance with FASB ASC 820, the Institute is required to disclose the nature and risks of the investments reported at NAV.

The following table summarizes the nature and risk of these investments as of December 31, 2022 and 2021:

	Fair Value 2022	Fair Value 2021	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Business development company fund 1	$ 30,013	$ 30,298	$ -	n/a	n/a
Business development company fund 2	11,814	10,995	-	n/a	n/a
Total	$ 41,827	$ 41,293	$ -		

Business development company fund 1 – This fund is a business development company fund that makes investments in a diversified portfolio of established middle market private companies. The fund's target investments are loans that are potentially secured by company assets. The fair values of the investments in this category have been estimated using the net asset value per share of the underlying investments. Although common unit holders will not have the right to redeem their units, at its discretion the Board of Trustees of the fund intends to make quarterly tender offers for its common units at the net asset value as of the applicable tender date.

(8) Fair value measurements (continued)

Business development company fund 2 – This fund is a business development company fund that primarily invests in senior debt, subordinated debt, structured products, and equity investments. The fair values of the investments in this fund have been estimated using the net asset value per share of the underlying investments. Although common unit holders will not have the right to redeem their units, at its discretion the Board of Trustees of the fund intends to make quarterly tender offers for its common units at the net asset value as of the applicable tender date.

(9) Endowments

The Institute's endowments consist of the following individual funds held in perpetuity:

	2022	2021
Duncan Endowment	$ 700,000	$ 700,000
McClelland Fellowship	100,330	100,330
Norton Fellowship	64,025	64,025
Goldberg Endowment	50,830	50,830
Total endowment funds held in perpetuity	915,185	915,185
Accumulated earnings subject to spending policies	389,691	603,296
Total endowment funds	$ 1,304,876	$ 1,518,481

The earnings from the Duncan endowment are restricted to support the constitutional litigation center. The earnings from the McClelland and Norton endowments are restricted to support Reagan fellows. The earnings from the Goldberg endowment are not restricted for a specific purpose.

The Institute's endowments include only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor imposed restrictions.

In September 2008, the State of Arizona enacted ARS§10-11801 et seq Management of Charitable Funds Act ("MCFA"). The Board of Directors of the Institute has interpreted MCFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as net assets restricted in perpetuity (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as net assets restricted in perpetuity is classified as net assets subject to purpose or time restrictions based upon the presence or absence of direction from the donor and are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by MCFA. In accordance with MCFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Institute and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Institute
(7) The investment policies of the Institute

(9) Endowments (continued)

The changes in endowment net assets for the year ended December 31, 2022 are as follows:

	Without donor restrictions	With donor Restrictions	Total
Endowment net assets,			
January 1, 2022	$ -	$ 1,518,481	$ 1,518,481
Investment Return:			
Interest and dividends	-	19,310	19,310
Realized and unrealized losses	-	(232,915)	(232,915)
Endowment net assets,			
December 31, 2022	$ -	$ 1,304,876	$ 1,304,876

The changes in endowment net assets for the year ended December 31, 2021 are as follows:

	Without donor restrictions	With donor Restrictions	Total
Endowment net assets,			
January 1, 2021	$ -	$ 1,267,127	$ 1,267,127
Contributions	-	-	-
Investment Return:			
Interest and dividends	-	23,598	23,598
Realized and unrealized gains	-	227,756	227,756
Endowment net assets,			
December 31, 2021	$ -	$ 1,518,481	$ 1,518,481

The Institute has adopted investment and spending policies to support current operations through a total return investment strategy and a spending policy to maintain, and ideally increase, the purchasing power of the endowment, without putting the principal value of these funds at prudent risk. Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce sufficient liquidity to meet distribution requirements, earn a total return of 3% in excess of inflation as measured by the Consumer Price Index over a five-year time horizon, earn competitive returns relative to capital market measures, including broad market indices, as well as funds with similar objectives.

To satisfy its long-term rate-of-return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The income and/or gains earned by endowment funds are considered revenue without donor restrictions and may be distributed to the Institute as general support revenue for its programs, unless otherwise restricted by the original donor's intent. On at least an annual basis the Executive Committee of the Board of Directors shall recommend to the Board of Directors an amount to be transferred from the unrestricted income and/or gain of the endowment funds to the general operating fund of the Institute. At no time shall the donor-restricted original contributions to the endowment funds be invaded.

(9) Endowments (continued)

As a matter of prudence, no distribution of income and/or gain shall decrease the total fair value of the endowment funds below the donor-restricted original contribution balance. The Executive Committee may distribute all income and/or gains earned by the endowment funds on an annual basis unless otherwise restricted by the original donor's intent.

(10) Liquidity and availability of resources

The Institute monitors its cash flows to ensure the fulfillment of all obligations. As part of the Institute's liquidity plan, excess cash is invested in short-term investments, primarily mutual funds, so as to have readily liquid investments available as needed. Investments may be drawn upon, if necessary, to meet unexpected liquidity needs or in the event of financial distress.

Financial assets available for general expenditure that is, without donor or other restrictions limiting their use, within one year of the balance sheet date are as follows:

Cash and cash equivalents	$ 3,480,581
Pledges receivable	118,167
Investments	8,732,755
Total financial assets	12,331,503
Less:	
Financial assets with donor restrictions	(1,931,840)
Investment subject to liquidity restrictions	(121,887)
Financial assets available to meet cash needs for general expenditure within one year	$ 10,277,776

(11) Retirement plan

As of January 1, 2009, the Institute implemented a 403(b) retirement plan. The plan is a non-safe harbor plan with the employer matching contributions subject to a 6 year graded vesting schedule. The amount of the Institute's match is discretionary and will be determined by the Institute on an annual basis. Contributions totaling $ 49,915 and $ 44,234 for the years ended December 31, 2022 and 2021, respectively, were made by the Institute, in addition to the elective deferrals made by employees.

(12) Beneficial interest in trust

In August 2021, the Institute was notified that it is a beneficiary of the Van Sittert Revocable Trust. The gift is restricted per the terms of the Statement of Intent that established the Logan and Barbara Van Sittert Center for Constitutional Advocacy.

The trust has several assets, including an interest in partnerships and LLCs, the value of which is unknown at this time. In August 2021, the Trust advised the Institute that it would not make any distributions from the Trust until publishing a Notice to Creditors and administering a buy-out provision regarding the Trust's interest in the partnerships. The Trust filed a Petition for Probate of Will and Appointment of Personal Representative on November 29, 2021. That matter was not decided by the Court in 2021. Throughout 2022, there was legal uncertainty and litigation regarding the Trust and the Institute as the proper beneficiary. That legal uncertainty was resolved in 2023. Accordingly, the Institute did not recognize its interest in the estate as of December 31, 2022 as the legal uncertainties were not resolved as of that date. A final accounting and valuation of the trust assets have not yet been completed by the trustee.